Working With Turnaround Professionals

An Interview with John M. Collard

Working With Turnaround Professionals, An

SMP Library

Working With Turnaroun

Strategic Management Partners

A nationally recognized turnaround management firm specializing in interim executive leadership, asset recovery, investing in underperforming distressed troubled companies.

Article *SMP Library* *SMP Home* *Contact*

COMMERCIAL LOAN MONITOR

Winter 1995

Working with Turnaround Professionals

An interview with John M. Collard, CTP, president of Strategic Management Partners, Inc., a corporate renewal services, turnaround and transition management firm in Annapolis, Maryland, and chairman of the Turnaround Management Association.

Lenders aren't in the business of closing down companies, nor do they want to be. But when a customer is in financial trouble, there may be no choice. Foreclosure or other drastic measures are usually just as painful for the lender as they are for the borrower. In addition to incurring substantial legal fees and other costs, the lender is also faced with ending what had once been a rewarding business relationship. In many cases, it is in the best interests of both the lender and the customer to attempt to restore the company to financial health.

The use of a turnaround professional may provide a solution for both the lender and the borrower. In this article, we discuss some of the advantages, obstacles, and pitfalls of utilizing a turnaround professional.

Leadership Styles

One of the reasons turnaround consultants are effective is that they are trained to lead under troubled or crisis conditions. According to Collard, "The management skills necessary to rescue a troubled company are dramatically different from those needed to manage long-term operations and growth in a healthy company."

In a healthy company, management's focus is generally on long-term objectives, coaching, and teambuilding. With the luxury of time, the occasional mistake generally will not do lasting harm. However, says Collard, "In a financially troubled company, time becomes the enemy. As the company's problems compound and cash flow evaporates, it becomes critical for management to act quickly and decisively."

For example, assume that a key employee is not performing satisfactorily. In a healthy company, management would probably inform the employee of the problem and give him or her some time to work things out, perhaps with some additional training and personal attention. On the other hand, in a troubled company whose survival is at stake, management may have no choice but to replace the employee, and do so quickly.

Because the management approach called for in a troubled environment is so foreign to many managers, it is often difficult to find the appropriate leadership within the company. Managers typically make decisions deliberately, and they should. They analyze the company's goals and objectives and evaluate the effectiveness of a particular course of action in attaining them. But goals and objectives are meaningless if the company won't survive next week.

In a turnaround situation, management's focus must be on short term survival. Financial credibility and the ability to manage the company's immediate cash needs are often more important than industry knowledge or reputation. While a manager in a stable environment should be known among employees and shareholders for consistency in making decisions, a manager in a troubled company must be able to shift gears to deal with the daily crises that inevitably occur.

Because existing management often does not possess the skills necessary to deal with a crisis, it may be a good idea to bring in a turnaround specialist. From the lender's perspective, this is desirable because the turnaround professional's first priority will be to manage cash and therefore to provide cash flow that can be used to make loan payments.

Early Detection

One of the greatest difficulties in salvaging a troubled company is that often by the time the real problem is recognized, it's too late. People tend to address symptoms (e.g., the company is losing money) instead of the problems behind them (e.g., insufficient sales). Collard recommends that lenders look for early warning signs that a company is headed for trouble and try to get the company some help before the situation deteriorates.

This may be easier said than done, however, because management often goes through a "denial" phase. Even if they acknowledge the problem, they tend to blame it on external factors (such as the lender's refusal to advance additional funds) rather than being introspective and examining the way the company is managed. In the eyes of management, the lender becomes the enemy, and it is very difficult for the lender to recommend the use of an outside advisor without some sort of leverage

Contrasting Leadership Styles

Attribute	Healthy Company	Turnaround Situation
Focus	Objectives	Survival, action, problem-solving
Decision making	Deliberate	Quick, decisive
Authority	Delegate	Direct involvement
People	Develop skills	Recruit talent
Respected for:	Management reputation	Financial credibility
Known for:	Consistency	Ability to shift gears

continued on next page

Working With Turnaround Professionals
An Interview with John M. Collard ***Text***

Commercial Loan Monitor

COMMERCIAL LOAN MONITOR

SECTIONS:

Leadership Styles
Leadership Styles in Contrast
Early Detection
Early Warning Signs
Lender Liability
Finding The Right Turnaround Professional

PDF Version

Contrasting Leadership Styles

Attribute	Healthy Company	Turnaround Situation
Focus	Objectives	Survival, action, problem-solving
Decision making	Deliberate	Quick, decisive
Authority	Delegate	Direct involvement
People	Develop skills	Recruit talent
Respected for:	Management reputation	Financial credibility
Known for:	Consistency	Ability to shift gears

An interview with John M. Collard, CTP, president of Strategic Management Partners, Inc., a corporate renewal services, turnaround and transition management firm in Annapolis, Maryland, and chairman of the Turnaround Management Association.

Lenders aren't in the business of closing down companies, nor do they want to be. But when a customer is in financial trouble, there may be no choice. Foreclosure or other drastic measures are usually just as painful for the lender as they are for the borrower. In addition to incurring substantial legal fees and other costs, the lender is also faced with ending what had once been a rewarding business relationship. In many cases, it is in the best interests of both the lender and the customer to attempt to restore the company to financial health.

The use of a turnaround professional may provide a solution for both the lender and the borrower. In this article, we discuss some of the advantages, obstacles, and pitfalls of utilizing a turnaround professional.

Leadership Styles

Sections

One of the reasons turnaround consultants are effective is that they are trained to lead under troubled or crisis conditions. According to Collard, "The management skills necessary to rescue a troubled company are dramatically different from those needed to manage long term operations and growth in a healthy company."

In a healthy company, management's focus is generally on long term objectives, coaching, and team building. With the luxury of time, the occasional mistake generally will not do lasting harm. However, says Collard, "In a financially troubled company, time becomes the enemy. As the company's problems compound and cash flow evaporates, it becomes critical for management to act quickly and decisively."

Contrasting Leadership Styles

Attribute	**Healthy Company**	**Turnaround Situation**
Focus	Objectives	Survival, action, problem-solving
Decision making	Deliberate	Quick, decisive
Authority	Delegate	Direct Involvement
People	Develop skills	Recruit talent
Respected for:	Management reputation	Financial credibility
Known for:	Consistency	Ability to shift gears

For example, assume that a key employee is not performing satisfactorily. In a healthy company, management would probably inform the employee of the problem and give him or her some time to work things out, perhaps with some additional training and personal attention. On the other hand, in a troubled company whose survival is at stake, management may have no choice but to replace the employee, and do so quickly.

Because the management approach called for in a troubled environment is so foreign to many managers, it is often difficult to find the appropriate leadership within the company. Managers typically make decisions deliberately, and they should. They analyze the company's goals and objectives and evaluate the effectiveness of a particular course of action in attaining them. But goals and objectives are meaningless if the company won't survive next week.

In a turnaround situation, management's focus must be on short term survival. Financial credibility and the ability to manage the company's immediate cash needs are often more important than industry knowledge or reputation. While a manager in a stable environment should be known among employees and shareholders for consistency in making decisions, a manager in a troubled company must be able to shift gears to deal with the daily crises that inevitably occur.

Because existing management often does not possess the skills necessary to deal with a crisis, it may be a good idea to bring in a turnaround specialist. From the lender's perspective, this is desirable because the turnaround professional's first priority will be to manage cash and therefore to provide cash flow that can be used to make loan payments.

Early Detection

Sections

One of the greatest difficulties in salvaging a troubled company is that often by the time the real problem is recognized, it's too late. People tend to address symptoms (e.g., the company is losing money) instead of the problems behind them (e.g., insufficient sales). Collard recommends that lenders look for early warning signs that a company is headed for trouble and try to get the company some help before the situation deteriorates.

This may be easier said than done, however, because management often goes through a "denial" phase. Even if they acknowledge the problem, they tend to blame it on external factors (such as the lender's refusal to advance additional funds) rather than being introspective and examining the way the company is managed. In the eyes of management, the lender becomes the enemy, and it is very difficult for the lender to recommend the use of an outside advisor without some sort of leverage (e.g., as a condition of additional financing, or under threat of foreclosure or bankruptcy).

Early Warning Signs

- Over-extension of owner or top management -- i.e., performance of functions that should have been delegated to others
- Excessive employee turnover
- Ineffective communications
- Unclear goals
- Failure of compensation and incentive programs to yield satisfactory results
- Deterioration of key client relationships
- Declining levels of new business
- Failure to properly analyse markets and competitors
- Lack of accurate, timely, and pertinent financial and operations reports
- A track record of failed expansion plans

One way to avoid this obstacle is for lenders to develop relationships with their customers. Companies are often advised that they should nurture their relationships with their bankers. But this advice applies to bankers as well. When a good loan goes bad, lenders tend to move immediately into a defensive posture without the intermediate step of working with the company to turn things around. Rather than waiting until loan covenants have been violated to get involved, lenders should establish constructive relationships with their customers early so that the relationship does not become adversarial later. In this way, the lender is in a better position to educate the customer and to convince the customer that outside help is needed.

Another strategy many banks are now using is to include language in their loan documents requiring the borrower to bring in a turnaround consultant or other professional under certain conditions (e.g., when certain covenants are violated or specified financial ratios reach a certain level).

Lender Liability

Sections

Lenders rarely make the decision to bring in a turnaround professional, even if it would be the most effective way of recouping their investment, because of lender liability concerns. If the lender makes the decision to engage a consultant and selects the individual, it is essentially making a management decision and may be exposed to liability if the decision is perceived to be a bad one.

It is probably permissible for the bank to insist on the use of a turnaround consultant to avoid foreclosure or as a condition of additional financing, provided the company selects the consultant, not the bank. Lenders may be able to avoid liability concerns by recommending, rather than imposing, a turnaround consultant. Many banks will present the borrower with a "short list" of three or four turnaround professionals that might be able to help. However, it is important for the lender to make it clear to the company that it is not required to select one of the recommended consultants. The company should be free to choose its own advisor or leader.

Given the potential magnitude of lender liability, it is advisable to consult legal counsel before taking any action that will affect or influence the management of the company.

Finding the Right Turnaround Professional

Sections

Turnaround consultants do not require any particular background. They include interim operating managers, management consultants, CPAs, lawyers, and other professionals. The most important factor is whether an individual possesses the skills needed to deal with a financially troubled company and the ability to make the "tough decisions" called for in a turnaround situation. If the company has a specific shortcoming that must be remedied, the individual turnaround specialist should have expertise in that area. It may be advisable to bring in someone with experience in the customer's industry. However, if the company has reached a crisis stage, experience in dealing with crises may be more important than specific industry experience.

The Turnaround Management Association, headquarters in Chicago, can be a source for these professionals. The TMA has almost 2,000 members across the U.S. and overseas. TMA has developed a program to help the selection process. The Certified Turnaround Professional (CTP) designation (much like a Certified Public Accountant, Certified Financial Analyst or Certified Management Analyst, only more) signifies that applicants have a minimum of five years senior operating management or turnaround consulting experience in a corporate renewal environment, and a minimum of a bachelor's degree. The program is unique in that it requires five client engagement confirmation letters, and five recommendations from professional sources: The program, administered by Northeastern University, tests the understanding of a comprehensive Body of Knowledge and includes rigorous testing and a background reference check. Certification is not a one time event, it includes continuing education requirements and recertification every five years.

From the lender's perspective, it is important that the turnaround professional be financially credible and honor his or her commitments. The company, as well as the bank and other interested parties, should be able to rely on the specialist to protect their interests and to provide them with the accurate and true information they need on a timely basis.

Turnaround specialists generally fall into two categories: consultants and interim CEOs. Consultants advise existing management (possibly the same management that got the company into trouble in the first place, or did not make

decisions in the past). Whether a consultant is effective depends on management's willingness to listen and to implement the specialist's recommendations. However, if management is unable or unwilling to make tough decisions (e.g., layoffs), an interim CEO with decision making authority may be preferable.

Not all companies are salvageable. An attempted turnaround is appropriate only if the company has a viable product or service and a market for that product or service. Under the right circumstances, however, the use of a turnaround specialist may be the answer for both the lender and the customer.

Sections ***Index***

We welcome constructive inquires. More information is available if required.

There is more to Strategic Management Partner's ***Return to Home Page***

[We

Contact Information

Index

John M. Collard, Chairman
Strategic Management Partners, Inc.
522 Horn Point Drive
Annapolis, Maryland [MD] 21403
Voice 410-263-9100 Facsimile 410-263-6094 E-Mail Strategist@aol.com

We serve as experts for comment or quote, please contact us at **410-263-9100** [Tele

We welcome constructive inquires, please send via E-Mail to: Strategist. [Mai

Top ***Index*** ***Sections*** ***Contact***
SMP Library
[Retur ***www.StrategicMgtPartners.com***
www.StrategistLibrary.com
www.StrategistArticle.com
www.StrategistFeature.com

***Copyright* © 1996-2003 Strategic Management Partners, Inc.** turnaround manageme and